



City of Houston

Annise D. Parker
City Controller

City-Wide Accounts Receivable and Billings Internal Audit

Human Resources Department

Report No. 04-28



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

October 25, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audit
Human Resources Department (Report No. 04-28)

Dear Mayor White:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed an Accounts Receivable and Billings Internal Audit pertaining to the Human Resources Department (Department). The purpose of the audit was to assist management with an assessment of the adequacy and effectiveness of the internal controls and reporting related to the City's accounts receivable and billing processes. Additionally, the audit determined if the Department has developed and implemented written accounts receivable policies and procedures which address the requirements of Executive Order No. 1-38 (Accounts Receivable Policy).

The report, attached for your review, did not note any high-risk issues and stated that the revenue streams consisting of miscellaneous copies and reimbursements for personal cell phone and long distance usage are properly accounted for and recorded. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible officials are appended to the report as Exhibit A.

We appreciate the cooperation extended to the JWI auditors by Department personnel during the course of the engagement.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Lonnie Vara, Director, Human Resources Department
Judy Gray Johnson, Director, Finance and Administration Department

September 30, 2004

Ms. Annise D. Parker
City Controller
City of Houston
901 Bagby, 8th Floor
Houston, TX 77002


Dear Controller Parker:

We have completed the internal audit of the Accounts Receivable and Billings for the Human Resources Department (Department) as outlined in our engagement letter dated October 10, 2003, under Contract No. 51783. This report documents our final report for the Department. A report summarizing significant issues identified across the departments will be issued at the conclusion of the City-wide engagement when the internal audit procedures have been completed for all City departments.

Our observations and recommendations noted during the performance of the procedures are presented in this report and views of responsible officials are attached as Exhibit A. Our procedures, which accomplished the project objectives, were performed through December 15, 2003 and have not been updated since that date. Our observations included in this report are the only matters that came to our attention, based on the procedures performed.

Jefferson Wells International is pleased to have assisted the City Controller and we appreciate the cooperation received during this engagement from the Human Resources Department as well as your office.

This report is intended solely for the information and use of the City, the Department and the City Controller's Office, and is not intended to be used for any other purpose.

A handwritten signature in cursive script, appearing to read "Erica D. Anderson".



Project Scope & Objectives

Scope:

This internal audit was performed to assist City management with an assessment of the adequacy and effectiveness of the internal controls and reporting related to the City's accounts receivable and billing processes. The scope of this report is the revenues and receivables managed by the Human Resources Department.

Objectives:

- § Determine whether all receivables managed by the Department are recorded in the City's financial records.
- § Determine whether there are receivables that are not recorded in the City's books.
- § Review and evaluate the type of records that are maintained to support the receivables.
- § Determine what steps, if any, are being performed to collect the outstanding receivables.
- § Determine whether billing systems are in place to bill timely those persons/entities that may owe the City monies.
- § Determine whether the Department has developed and implemented written accounts receivable policies and procedures, which address the requirements of Executive Order No. 1-38 (Account Receivable Policy).



Procedures Performed

- § Requested and gathered pertinent documents related to the Department's revenue sources, including written accounts receivable procedures applicable to each of its sources of revenue.
- § Compiled a preliminary list of revenue sources for the Department.
- § Identified and scheduled interviews with key financial personnel for the Department.
- § Interviewed key Departmental personnel and obtained an understanding of the Department's process, as applicable, related to:
 - ∅ Capturing each transaction that results in a source of revenue/receivable;
 - ∅ Timing of revenue/receivable recognition;
 - ∅ All applicable accounting entries;
 - ∅ Billing systems for monies owed the City; and
 - ∅ Monitoring and collection of accounts receivable, including supporting documentation.
- § As applicable, for each of the Department's revenue/receivable source that involves the generation of a bill for monies owed the City:
 - ∅ Traced each receivable source to the City's financial system;
 - ∅ Determined whether the applicable billing system had been designed to mitigate the risk of bills not being generated on a timely basis; and
 - ∅ Determined whether the described billing system is in-place and operating effectively.



Procedures Performed (continued)

- § As applicable, reviewed the Department's written policies and procedures and determined compliance with Executive Order No. 1-38, Accounts Receivable Policy, specific to:
- ∅ Appropriate Authorization;
 - ∅ Cost Recovery;
 - ∅ Transaction Processing;
 - ∅ Physical Safeguards;
 - ∅ Substantiation and Evaluation;
 - ∅ Determination of net realizable value;
 - ∅ Identification of accounts to be recommended to the Mayor and City Council for write-off approval;
 - ∅ Determination of appropriate allowance for doubtful accounts;
 - ∅ Preparation of accounts receivable aging analysis, aged cash receipts, and cash collections percentage reports; and
 - ∅ The use of the reports mentioned above to evaluate collectibility, target accounts requiring more aggressive collection efforts, and target accounts that yield better collections results.



Revenues & Receivables Overview

Background

- § The Human Resources Department's only revenue streams consist of miscellaneous copies and reimbursement for personal cell phone and long distance usage – no amount is budgeted for these items.
- § The Department charges for copies as they are made and reflects such amounts on a cash basis.
- § Reimbursements related to employee use of phones totals approximately \$200 per month with the payment required via check or money order. Failure to pay the City would result in the cell phone and long distance service being cut-off.
- § Former employee's COBRA payment's are collected and transmitted to the health plan for their coverage.
- § Finance and Administration may receives NSF checks for processing, recording of the receivable and collection. Receivables were \$74,955 in December 2003 and were fully reserved as of January 1998.

Summary

- § Revenues earned by the Department are not recorded within the City's financial system until received.
- § During the internal audit, we noted the Department had an accumulated receivable for NSF checks of \$74,955, which were recorded and reserved.



Revenues & Receivables Overview

	<u>2004 Annual Budget</u>	<u>Receivables are Generated</u>	<u>Receivables are Recorded</u>	<u>Accounting is in Accordance with GAAP</u>
Revenues/Recoveries:				
Miscellaneous copy fees	\$ -	n/a	n/a	X
Phone reimbursements	-	n/a	n/a	X
Returned checks – COBRA dental payments	-	X	X	X

Definition of Terms:

- § **X** – Represents a Yes answer related to determining if each identified revenue stream results in a receivable.
- § **Receivables** – The resulting asset when revenue has been earned but no payment is made at the point the service or good is provided (normally the result of a bill being generated).



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Appropriate Authorization	<ul style="list-style-type: none"> § The City has established policies and procedures related to approving procedures for COBRA payments. § All payroll withholdings are determined by City approved plans and specific elections authorized by the employee. § Generally, the Department does not have receivables arising from its activities. 	<ul style="list-style-type: none"> § None noted. 	Low
Cost Recovery	<ul style="list-style-type: none"> § N/A – The Department does not provide a service to generate receivables, but rather receivables arise from checks deposited by City with insufficient funds (NSF). 	<ul style="list-style-type: none"> § The City’s Department of Finance and Administration (F&A) is responsible for collecting all NSF receivables. § The Department was not supplied with an accounts receivable reconciliation. 	Moderate
Transaction Processing	<ul style="list-style-type: none"> § COBRA payments are at the election of the former employee. Employees are able to submit their first month’s COBRA payment to the City to ensure continuation of benefits. § NSF receivables are recorded monthly as identified by F&A and a receivable account is maintained for the department. F&A collects the receivable and will credit the collection to the receivable account. 	<ul style="list-style-type: none"> § None noted. 	Low



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Physical Safeguards	<ul style="list-style-type: none"> • See Transaction processing for the segregation of duties related to the Department's receivables. 	<ul style="list-style-type: none"> • None noted. 	Low
Substantiation and Evaluation	<ul style="list-style-type: none"> • See the controls noted under transaction processing above. Further, based on a review of one month's activity – transactions and recorded receivable amounts were substantiated. 	<ul style="list-style-type: none"> • None noted. 	N/A
Determination of Net Realizable Value <i>(Minimum of Annually)</i>	<ul style="list-style-type: none"> • Validation of realizable value is determined based on the collection efforts of F&A. • Collections are recorded by F&A as they are made. • Cash and related bank accounts are reconciled monthly by the Controller's Office. 	<ul style="list-style-type: none"> • Monthly the Department should be notified of the balance of outstanding receivables to assess whether additional collection efforts should be made or whether future changes to procedures should be made to minimize such receivables. 	Moderate



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Identification of Accounts to be Written-off / Determination of an Appropriate Allowance for Doubtful Accounts <i>(Minimum Annually)</i>	<ul style="list-style-type: none"> § F&A would have this responsibility rather than the Department. § The City's policy with regard to writing off NSF receivables results in ongoing collection efforts, including utilizing the City Attorney's Office, if necessary, and retaining detail of all such receivables should future collection become feasible. 	<ul style="list-style-type: none"> § None noted. 	Low
Preparation of Reports & Analysis	<ul style="list-style-type: none"> § F&A prepares and monitors reports related to such receivables. § All reports are reconciled to the supporting systems and reviewed by someone independent of the preparation process. 	<ul style="list-style-type: none"> § See separate internal audit of receivables for F&A. 	Moderate
Use of Reports to Evaluate and Improve Collections	<ul style="list-style-type: none"> § The Department has not collected the NSF receivables due to that activity being assigned to F&A. 	<ul style="list-style-type: none"> § We recommend that Human Resources work with F&A to determine collectibility of receivables and recommend potential write-offs for stale receivables. 	Moderate

EXHIBIT A



CITY OF HOUSTON
Human Resources

Interoffice
Correspondence

To: Annise D. Parker
City Controller

From: Lonnie Vara
Human Resources Director

Date: September 30, 2004

Subject: City-Wide Accounts Receivable and Billing
Internal Audit; Human Resources
Department

Thank you for the audit work performed and the professionalism of Jefferson Wells staff.

As pointed out in the audit, the Human Resources (HR) Department revenue consists of fees for miscellaneous copies and property accounts for and records when received.

In addition, the HR department has adequate controls in place to minimize, if not eliminate, any receivables arising from COBRA NSF checks. In summation, we agree with the report.

Should you have any questions or need further information, please contact me or Ramiro Cano at 713-837-9350.

Sincerely,

Lonnie Vara

*Views of Responsible
Officials*

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